

4 March 2020

ELEMENTIS plc PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

Self-help actions partially offset challenging market demand environment

- Revenue from continuing operations up 6% from \$822m to \$874m, driven by contribution from the recently acquired Talc business more than offsetting declines in other businesses.
- Adjusted operating profit down 7% to \$123m. Growth in Talc and self-help actions offset by market related declines in Chromium and Energy, weaker industrial production and destocking in Coatings, and competitive pressures in AP Actives as volumes recover ahead of India plant start up. Statutory operating profit up 19% to \$101m.
- Strong operating cash conversion of 130%⁴ driven by sustainable working capital reductions and capital discipline. Net debt reduced by \$44m from \$498m to \$454m despite \$29m of one off cash items in the first half. Year-end financial leverage⁵ up from 2.5x in 2018 to 2.7x.
- Ordinary dividend up from 8.40c[†] to 8.55c per share, reflective of strong underlying cash generation and attractive medium term prospects.

Clear Innovation, Growth & Efficiency priorities underpin medium term objectives

- Talc integration complete - on track for delivery of \$20-25m revenue synergies by 2023.
- Business fundamentals remain strong – a higher quality, advantaged portfolio in premium performance additives with clear growth opportunities.
- Group focused on Innovation, Growth & Efficiency agenda to deliver medium term performance objectives; 17% adjusted operating profit margin, 90% plus operating cash conversion and financial leverage under 1.5x net debt/EBITDA.

Cautious 2020 outlook – stable performance expected with financial deleveraging

- Market conditions remain challenging but solid start to the year.
- Stable performance expected, with overall progress in Personal Care, Coatings and Talc (c.80% of Group earnings) offset by a weak market in Chromium. Performance to be supported by progress on delivery of \$15m medium term cost savings and new business opportunities.

FINANCIAL SUMMARY

	2019	2018	% Change
Revenue	\$874m	\$822m	+6%
Statutory operating profit for the period	\$101m	\$85m	+19%
Statutory profit for the period	\$46m ^Δ	\$41m ^Δ	+12%
Statutory basic earnings per share ²	8.0c ^Δ	7.9c ^Δ	+1%
Adjusted operating profit ¹	\$123m	\$133m	-7%
Adjusted profit before tax ¹	\$94m	\$113m	-17%
Adjusted diluted earnings per share ²	12.4c	16.9c	-27%
Adjusted operating cash flow ³	\$155m	\$78m	99%
Net debt ³	\$454m	\$498m	-9%
Ordinary dividend per share	8.55c	8.40c [†]	+2%

Commenting on the results, CEO, Paul Waterman said:

"2019 was a year of material strategic progress for Elementis. Talc was integrated and performed well, our Coatings transformation was completed and the ramp up of our new AP Actives site in India continued at pace.

Market trading conditions were challenging, with a notable deterioration in our two most cyclically exposed businesses, Chromium and Energy, along with ongoing competitive pressure in AP Actives. Nonetheless, our self help actions on cost savings and new business initiatives have helped to protect profits and margins.

Over the last three years, Elementis has been re-positioned as a premium performance additives company with advantaged positions in growing markets. Going forward, the execution of our Innovation, Growth and Efficiency strategy will address our customers' most challenging problems whilst driving sustained value creation. We are excited about the potential for material growth opportunities, margin improvement and strong cash generation".

Business performance overview

- **Personal Care** revenue down 4% on an organic basis* (7% on a reported basis), from \$210m to \$195m. Adjusted operating profit down 16% on an organic basis* (18% on a reported basis); adjusted operating margin of 21.9%.
 - Good performance in the high margin Cosmetics business (4% organic* sales growth), offset by decline in AP Actives due to competitive pricing actions ahead of the key India plant start up.
 - Margins down from 24.8% in 2018 to 21.9% due to impact of US tariffs (\$4m adjusted operating profit impact) and AP Actives revenue decline.
- **Coatings** revenue down 8% on an organic basis* (12% on a reported basis), from \$362m to \$320m. Adjusted operating profit down 8% on an organic* and reported basis from \$53m to \$48m, with adjusted operating margin up from 14.5% to 15.1%.
 - Revenue impacted by volume decline due to weak industrial market demand, portfolio rationalisation and some destocking, particularly in Asia in first half.
 - Margins improved to 15.6% in H2 2019 due to improved portfolio, efficiency measures, new business wins and product launches.
- **Talc** revenue, on a pro forma⁵ constant currency basis, up 1% to \$151m (down 5% on a reported basis). Supported by a good H2, adjusted operating profit up 11% to \$26m on a pro forma⁵ constant currency basis (4% up on a reported basis) with margins up from 15.5% to 17.1%.
 - Good revenue growth in industrial talc of 4% (pro forma⁵ constant currency basis) with market share gains in coatings and technical ceramics, partially offset by weaker paper market.
 - Margins improved to 17.1% as a result of improved product mix and cost synergies.
- **Chromium** revenue down 7% to \$171m; adjusted operating profit down 45% to \$18m.
 - Revenue impacted by lower volumes due to weaker industrial production and pricing declines in the second half, principally outside of North America.
 - Margins down from 17.9% to 10.6% due to lower volumes and increased competitive intensity, particularly in H2 2019.
- **Energy** revenue down 14% on a constant currency basis to \$47m. Adjusted operated profit down 46% to \$4m due to lower volumes.
 - Revenue down as new business wins in eastern hemisphere more than offset by decline in drilling activity, particularly in North America in H2 2019.
 - Margins down from 12.9% to 8.2% as a result of lower volumes and modestly weaker mix.

Further information

A presentation for investors and analysts will be held at 09:00 GMT on 4 March 2020. The presentation will be webcast on www.elementis.com. Conference call dial in details:

UK: 020 3936 2999 Other locations: +44 20 3936 2999
Participant access code: 969211

Enquiries

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Notes:

* Adjusted for constant currency and M&A. See Finance Report.
Unless otherwise stated, KPIs refer to continuing operations only.

Δ – Total operations (both continuing and discontinued operations).

† – Rebased for the effects of the rights issue.

1 – See note 5.

2 – See note 7.

3 – See Finance Report.

4 – See alternative performance measures information.

5 – See unaudited pro forma information.

– ENDS –

Chairman's statement

Despite a challenging demand environment in many of our markets, we have continued to make strategic progress. The development of our recently launched Innovation, Growth and Efficiency strategy is an exciting next step for Elementis, clearly articulating how we aim to achieve our medium term ambitions.

BUSINESS AND MARKETS

In 2019, we experienced a challenging macroeconomic environment characterised by weak demand. This was particularly the case in our two most cyclically exposed businesses, Chromium and Energy, where performance declined. By contrast, the Talc result, following the acquisition of Mondo in late 2018, was particularly encouraging in the context of soft automotive demand for long life plastics.

INNOVATION, GROWTH AND EFFICIENCY

Over the last three years, we have made significant progress in transforming Elementis' portfolio, management and culture; repositioning the Group as a premium performance additives business with advantaged positions in growing markets. In November 2019, we held a Capital Markets Day for analysts and investors to outline the next phase of our development.

Innovation, Growth and Efficiency are the pillars of our new strategic agenda. Execution of our priorities in these areas will address our customers' most challenging problems while driving sustained value creation. Now with the right platform in place, we are excited about the potential at Elementis for material growth opportunities and margin improvement, alongside strong cash generation. You can read more on our strategy and plans in the CEO's review.

BALANCE SHEET

A hallmark of Elementis is strong cash generation. In 2019, this was no different, with net cash generation of \$44m despite one off cash items of \$29m in the first half, thereby reducing net debt from \$498m at the end of 2018 to \$454m at the end of 2019.

Looking forward our priorities are clear: investment to drive organic growth, a progressive dividend for shareholders and debt reduction.

In the medium term we plan to rapidly delever the Group and have the objective to reduce leverage to under 1.5x net debt/EBITDA. This will be delivered through the execution of our strategic priorities, operating cash conversion in excess of 90% of operating profits and disciplined capital allocation.

DIVIDEND

This year, the Board is recommending a total ordinary dividend of 8.55 cents per share (2018: 8.40 cents per share[†]), reflecting our confidence in the Group's business model and ability to generate cash, its medium term prospects and the levels of investment required to deliver our Innovation, Growth and Efficiency objectives.

The final dividend will be paid on 29 May 2020 in pounds sterling at an exchange rate of £1.00:\$1.2925 (equivalent to a sterling amount of 4.4487 pence per share) to shareholders on the register at 1 May 2020. The Board declared an interim dividend at the time of the Interim Results announcement of 2.80 cents per share (2018: 2.70 cents[†]).

GOVERNANCE AND BOARD

As a Board, we set out to deliver the highest standards of corporate governance, transparency and integrity. Board chemistry is excellent, with candour, mutual respect and collective commitment providing a healthy dynamic for debate, challenge and decision making.

Board succession planning is key to preserving this position, and to that end we were pleased to appoint John O'Higgins as incoming Senior Independent Director who joined the Board on the 4 February 2020. John will replace Nick Salmon, to whom we will say goodbye at the forthcoming AGM. Nick joined the Board in 2014 and leaves with our sincere thanks for his outstanding contribution and wise counsel.

STAKEHOLDER ENGAGEMENT

Alongside supporting and empowering our people, we have continued to ensure that we understand and consider the views of all our key stakeholders.

As Chairman, I continue to visit sites across the world and hold open town hall sessions with the employees as a matter of course. Similar events are conducted when all Board members attend operational sites as part of the Board's annual programme. In 2019 we held such meetings in the Netherlands, Finland and China.

During the year, Sandra Boss was designated Non-Executive Director for engagement with the Company's workforce. Sandra is already involved with the Company's approach to investing in and rewarding our workforce in her capacity as a member of the Remuneration Committee.

A CULTURE FOR SUCCESS

The culture at Elementis is open and inclusive, where people enjoy working together. We place huge importance on creating a culture of doing what's right and speaking out if things are not. This is supported by a strong set of values - Safety, Solutions, Ambition, Respect and Team. In 2019, we have further embedded these values through our employee communications, performance management systems and training opportunities.

This year, macroeconomic conditions have been challenging. The Group has nonetheless delivered resilient operating margins and strong underlying cash generation. On behalf of the Board, I would like to thank each and every employee for their commitment.

SUMMARY

In 2019, Elementis delivered progress in the face of tough macroeconomic conditions. Looking ahead, while global market conditions remain challenging, we continue to invest for the future and are confident that our strategic priorities of Innovation, Growth and Efficiency will deliver further progress in 2020 and beyond.

Andrew Duff

Chairman

4 March 2020

† Rebased for the effects of the rights issue.

Chief Executive Officer's overview

Elementis has changed significantly over the last three years. We have exited disadvantaged, capital intensive businesses and added new operations that provide scope for better growth and returns. Combined with a significant resetting of how we run our business, we now have a solid platform to create value by delivering Innovation, Growth and Efficiency.

PERFORMANCE

This was a year of disappointing financial performance, driven by weak market demand conditions. Coatings was impacted by weaker industrial production and destocking, Personal Care saw growth in Cosmetics but competitive pressures in AP Actives, while Talc had a robust performance in our first full year of ownership. Results in Chromium and Energy, our two more cyclically exposed businesses, were impacted by weak industrial production and lower drilling activity respectively. Further details on each business segment's performance can be found in the business commentaries.

Elementis is a highly cash generative business and our working capital and capital expenditure initiatives aim to improve this still further. In 2019, our operating cash conversion was strong at 130%*, and as a result our net cash generation was \$44m. Net debt reduced from \$498m at the end of 2018 to \$454m, representing a leverage ratio of 2.7x EBITDA**. Looking forward, we see a clear deleveraging profile for the Group as a result of strong underlying cash generation and the impact of our cash focused strategic initiatives.

SAFETY

Safety remains our top priority – we will never be satisfied unless every employee is safe 100% of the time. In 2019, I am pleased to report we had a good level of performance, relative to both the industry and our medium term track record, with seven recordable injuries (2016-18 average: 11) and a total recordable incident rate of 0.48 (2016-18 average: 0.78), up marginally from the lowest level ever achieved at Elementis in 2018. This robust level of performance was driven by investments made in recent years to reduce operational risks and enhanced safety leadership training to develop our safety culture. Going forward, we will continue to focus on improving this record still further.

CSR AND SUSTAINABILITY

Within a wider consideration of how we do business, sustainability is a core value at Elementis. This is reflected in both how we run our operations and the benefits our products bring to customers and wider society.

We are committed to reducing the energy intensity of our operations and we are proud that our ongoing efforts in this area are externally recognised. We were delighted to receive in 2019 a silver rating under the EcoVadis programme, which places us in the top 5% in the manufacturing sector for our sustainable supply chain within global manufacturing.

The green credentials of our products are also foremost in our mind. In Personal Care, our clay based products offer an attractive natural alternative to customers and are verified against rigorous third party standards such as ISO, COSMOS and Ecolabel. In Coatings, our technologies enable the creation of more environmentally friendly waterborne industrial products and in Talc, our additives support vehicle light weighting and the subsequent reduction in greenhouse gas emissions. We enable our customers to enhance the sustainability credentials of their products and we are excited to be part of progress in this area. Going forward we will continue to take actions that ensure the sustainability of both our operations and products improve.

PEOPLE

Our Chairman has written of the open and inclusive culture that we seek at Elementis, and the importance of doing what is right. Our people, and the culture that they embody, are at the centre of our success.

We are very fortunate to have developed a deeply experienced and highly committed leadership team. This year I am pleased to welcome Steve Ridge and Ajeeth Enjeti to that team. Steve has a career of more than 25 years in the chemicals industry and joins Elementis from FMC Corporation as SVP Global Supply Chain. Ajeeth joined us as part of the Talc acquisition and has assumed the role of SVP Strategy and Transformation, replacing the recently retired Danny Hughes.

TALC INTEGRATION

The acquisition of Talc closed on 23 October 2018 and just over one year later, I am pleased to say that integration is complete. All key individuals within the Talc business are now part of Elementis and are working at pace to execute our strategic priorities. Functions such as IT, finance and supply chain are all integrated into the global Elementis

teams, sharing expertise and working in harmony. Together, we made good progress in 2019 on delivering the bulk of our planned \$2m in cost synergies through savings in areas such as marketing, IT and supply chain.

Our sales teams are also fully integrated. This is most relevant for Coatings and Personal Care where we are on track for delivery of \$20-25m of revenue synergies by 2023. We now have more than 30 new distributors carrying our Talc products in the Americas and Asia and significant new business opportunities in the pipeline. This is great progress and I am very excited about the future of Talc within Elementis.

INNOVATION, GROWTH AND EFFICIENCY

As reflected by the Talc acquisition, we have made significant progress over the last three years transforming our portfolio and re-positioning Elementis as a premium performance additives company with an advantaged position in growing markets.

Personal Care, Coatings and Talc now represent over 80% of Elementis' earnings and are true premium performance additive businesses. In each we transform advantaged resources, such as hectorite and talc, into high value ingredients using our distinctive technology and formulation expertise. Taken together, what we do ensures that our customers' end products perform better. This is what we mean when we speak about Enhanced Performance Through Applied Innovation.

Our strategic pillars of Innovation, Growth and Efficiency are designed to deliver our medium term performance objectives for the Group.

1) INNOVATION

Innovation is at the heart of what we do. We are a global leader in performance-driven additives that create innovative solutions for our customers. Leveraging our capabilities in rheology, surface chemistry and formulation, we help customers improve their products, responding to their biggest challenges through deep partnerships, ongoing technical support and consistent quality, service and delivery. This focus on market leading innovation drives our business and our growth.

Our innovation priorities are threefold. First, we want to deliver distinctive new technologies that provide improved performance and lower operation costs, while at the same time enhancing our customers' sustainability. At the end of 2019, 45% of our product portfolio delivered against these innovation priorities.

Second, we are focused on material innovation challenges that face not just our customers but also the industries in which we operate. For example, using more natural ingredients in Personal Care and fewer VOCs in Coatings. This ensures our resources are directed to the biggest, most impactful opportunities. Today we are spending 35% of our R&D budget on our top 10 projects versus 20% in 2016.

Lastly, we are increasing our speed of innovation. By focusing on fast prototyping, proof-of-concept techniques and technology transfer across our different segments, our time from concept to market has drastically decreased from 2.5 years in 2016 to 1.5 years today.

How do we judge success in innovation? Our aim is to increase the revenue we generate from innovation; for example, by driving the proportion of distinctive products in our portfolio from 45% today to 60% in 2025. And we want more new products. While we have been doing better in recent years, our ultimate goal is for 15% of our sales to come from new or protected products.

Innovation excellence is critical for any chemicals company. And targeted innovation drives both growth and efficiency.

2) GROWTH

In our transformed portfolio, over 80% of earnings are now generated by Personal Care, Coatings and Talc. The value chains across these segments are similar, transforming advantaged and long life hectorite and talc resources into high value additives via distinctive processing and formulation expertise, as well as consistent product quality and high levels of customer support.

In addition to their enduring competitive advantages, there are clear growth opportunities for these premium performance additive businesses, supported by structural mega trends.

Within Personal Care, there are major opportunities in Cosmetics. Despite 25% average annual sales growth in Asia over the last four years, we are relatively underweight, with the region representing around 20% of sales. To drive further growth, we are doubling the size of our Asia sales team, building dedicated technical support and

focusing our innovation efforts on local market needs. Skin care is a new and attractive market for our natural ingredients, and in antiperspirant actives emerging market growth and increasing product performance requirements will drive growth. We are well positioned to capture these opportunities and grow Personal Care revenue well above GDP levels with high and stable operating profit margins over the medium term.

Talc has been successfully integrated into Elementis and we are now the second biggest global player, serving growing high end industrial applications. We are well positioned to expand market share outside Europe and address the opportunities presented by global mega trends. Vehicle light weighting, emission regulations and reduced single use plastics consumption are expected to drive strong sustainable demand for our Talc ingredients. There is also significant revenue synergy potential (on track for \$20-25m by 2023) leveraging our global reach, customer relationships and innovation expertise. As a result, over the medium term we expect to grow Talc revenue well above GDP with an improving operating profit margin.

In Coatings, we are a leading supplier of high value, premium additives, critical to performance. Our Coatings transformation programme has created an integrated, simpler and more customer centric organisation bringing margin improvement and focused, profitable growth. We see clear growth opportunities for our unique ingredients in premium decorative, waterborne industrial additives and adhesives & sealants. As a result, in Coatings we are targeting GDP+ organic revenue growth over the medium term, with an improving operating profit margin.

3) EFFICIENCY

We know where and how we want to grow. Efficiency and simplification will ensure that we generate growth at the lowest operating cost. To this end, we are targeting a \$15m reduction in our 2019 cost base by 2022.

We are focused on three areas: organisation structure, operational efficiency and digitisation.

We have redesigned and streamlined our global structure to fit our changed portfolio. Bigger spans and fewer layers promote faster decision making and a more efficient execution. In addition, we have aligned job levels on a global basis as part of our approach to standardise key processes, including those related to HR, IT, finance, procurement and logistics across geographies. These steps have resulted in a lower headcount of approximately 100 full-time employees. Our organisational redesign is nearing completion and will result in \$5m of full-year savings.

A further \$10m of efficiency gains are expected to come from our global supply chain. Our new Indian manufacturing facility will lower our manufacturing costs, increase our proximity to growth markets and create a tariff-neutral starting point for our AP Actives operations. In addition, we are aligning our global capacities with our volumes. This consolidation exercise will improve our supply chain planning and inventory control. And a strategic review of procurement spend within our current organisation has opened up possibilities of savings in areas such as transportation and logistics.

A key enabler of our efficiency and simplification drive is our digital implementation programme. Here, we are making big changes. Historically we had a variety of different IT systems, partly a reflection of a dispersed set of businesses and functional activity. Today, we have adopted some best-in-class and standardised applications across the Group that give us the ability to operate more efficiently and effectively and serve our customers better.

Whether it be how we manage our teams, run our global supply chain, or serve our customers, we have a mentality of continuous improvement. With this clear focus, we aim to build on our progress in 2019 and deliver a further \$15m of efficiency savings by 2022.

OUR OBJECTIVES

With strong positions in attractive markets we see clear growth and margin improvement opportunities and expect to deliver strong, sustainable returns. Linked to our strategic framework are clear medium term Group performance objectives. These include:

- Adjusted operating profit margin of 17%
- Operating cash conversion of at least 90% per annum
- Financial leverage of under 1.5x net debt/EBITDA

We are excited about the potential at Elementis for material growth and margin improvement alongside strong cash generation.

COVID-19

As the Covid-19 virus situation has developed we have been assessing the impact on our employees and our business to ensure that both are effectively supported and managed. Our production sites and sales offices in China have reopened and all Elementis staff are safe and well. China represents approximately 15% of our Group sales,

is home to three out of our 22 manufacturing plants and is a limited part of our global supply chain. However, there is potential for some disruption to customer demand and we will continue to monitor the impact as appropriate.

OUTLOOK

We have focused Elementis on high quality, high margin activities in Personal Care, Coatings and Talc, and remain focused on the execution of our strategic priorities.

The fundamentals of our business remain strong. In the short term, given the challenging market back drop, and the uncertainty around the wider impact of Covid-19, we remain cautious on the 2020 outlook with stable performance expected, supported by the delivery of cost savings and new business opportunities. Overall progress in Personal Care, Coatings and Talc is expected to be offset by challenging market conditions in Chromium.

Paul Waterman

CEO

4 March 2020

* See alternative performance measures information.

** See unaudited pro forma information.

Business Commentaries

Revenue

	Revenue 2018 \$m	Effect of exchange rates \$m	Impact of M&A** \$m	(Decrease)/ increase 2019 \$m	Revenue 2019 \$m
Personal Care	210.3	(6.1)	(0.7)	(8.5)	195.0
Coatings	362.2	(11.3)	(4.0)	(26.8)	320.1
Talc	21.5	(9.2)	136.9	1.5	150.7
Chromium	184.3	–	–	(13.3)	171.0
Energy	54.9	(0.4)	–	(7.9)	46.6
Inter-segment	(11.0)	–	–	1.2	(9.8)
Revenue from continuing operations	822.2	(27.0)	132.2	(53.8)	873.6
Revenue from discontinued operations	4.8	–	(4.8)	–	–
Total revenue from continuing and discontinued operations	827.0	(27.0)	127.4	(53.8)	873.6

Adjusted operating profit

	Operating profit 2018 ^Δ \$m	Effect of exchange rates \$m	Impact of M&A** \$m	(Decrease)/ increase 2019 \$m	Operating profit 2019 ^Δ \$m
Personal Care	52.2	(1.0)	(0.1)	(8.4)	42.7
Coatings	52.5	(2.6)	2.5	(4.1)	48.3
Talc	3.9	(1.5)	20.7	2.6	25.7
Chromium	33.0	–	–	(14.8)	18.2
Energy	7.1	(0.1)	–	(3.2)	3.8
Central costs	(16.1)	–	–	0.4	(15.7)
Adjusted operating profit from continuing operations	132.6	(5.2)	23.1	(27.5)	123.0
Discontinued operations – Surfactants	(0.6)	–	0.6	–	–
Total adjusted operating profit from continuing and discontinued operations	132.0	(5.2)	23.7	(27.5)	123.0

^Δ After adjusting items – see note 5.

Personal Care

Personal Care revenue in 2019 was \$195m compared with \$210m in the prior year, a 7% decline on a reported basis. Excluding the impact of FX and M&A (i.e. on an organic basis*), revenue fell by 4%.

On the same basis, our Cosmetics business revenue rose by 4%, driven by steady performance in North America and Europe and strong growth in Asia and Latin America as the penetration of our hectorite clay based products increased. This growth in Cosmetics was more than offset by a decline in AP Actives revenue. While volumes finished the year broadly flat on 2018, as we grew market share in the second half of 2019, ongoing competitive pressures adversely impacted revenue.

Adjusted operating profit declined by 18% to \$43m, with adjusted operating margins solid at 21.9%, but down from 24.8% in the prior year period. This decline was primarily driven by margin pressure in AP Actives due to US tariffs on the importation of zirconium, a key raw material, from China.

Coatings

Coatings revenue in 2019 was \$320m compared with \$362m in the prior year, a 12% decline on a reported basis. On an organic basis*, revenue fell by 8% driven by weak end market demand, customer destocking and the impact of our portfolio simplification actions.

Asia is the largest region of our Coatings business, representing approximately 40% of total sales. In 2019, our revenue in the region declined by 12% on an organic basis*. This was a result of a material demand slowdown in industrial sectors such as automotive and construction and significant customer inventory destocking, particularly in

the first half of the year. Macroeconomic weakness, driven by the China-US trade disputes, was the primary contributing factor. Revenue also declined in the Americas and Europe, reflective of subdued macroeconomic factors, but at a much more modest rate.

On an organic basis*, adjusted operating profit declined by 8% to \$48m, as a result of weaker demand conditions. Margins however improved from 14.5% in 2018 to 15.1% in 2019, reflective of the impact of our transformation programme and the benefit from self-help actions such as cost savings and new business wins.

Talc

On a 12 month pro forma*** basis Talc revenue in 2019 declined by 5% to \$151m. Excluding the impact of FX, specifically the weaker euro against the US dollar, revenue rose 1% on the prior year period with growth in industrial talc offset by a decline in sales to paper markets.

Industrial talc revenue rose by 4% on a pro forma constant currency basis, driven by market share gains in technical ceramics and coatings, as we gained new customers and entered new geographies. Sales in Asia grew 36% in 2019, as we pursued our strategy to grow Talc outside our core European market. This growth was partially offset by a decline in talc demand for use in long life plastics, primarily in automotive applications, as global car production declined by 6% on 2018, reflecting tougher macroeconomic conditions.

Elsewhere, Talc sales to the paper market fell due to a temporary customer production issue and weak market demand for graphic paper. We continue to expect our sales to the paper market to decline in the medium term driven by the ongoing structural shift to digital media platforms.

On a 12 month pro forma*** basis, adjusted operating profit rose by 4% on a reported basis, and 11% on a constant currency basis, to \$26m following the delivery of new business opportunities and the majority of our \$2m cost synergies. As a result, 12 month pro forma*** margins rose from 15.5% in 2018 to 17.1% in 2019.

Chromium

Chromium revenue in 2019 was \$171m compared to \$184m in the previous year, a decrease of 7% driven by weak global industrial demand and pricing for chromium chemicals. As a result of weak demand from industrial applications, including automotive and machinery end users, our volumes declined by 7% on the prior year period. Average pricing was also lower, primarily in the second half of the year, reflective of weaker global chromium industry capacity utilisation, which we estimate fell from approximately 90% in 2018 to around 80% in 2019.

While our North American operations were impacted by the global industrial production slowdown, compared to the rest of the world its performance was relatively robust, protected by our strong market share and differentiated customer delivery system. Outside of North America, our performance was more materially impacted by lower volumes and unit pricing.

Adjusted operating profit declined by 45% to \$18m, reflective of the impact of weaker volumes globally and weaker pricing outside North America.

Energy

Energy revenue in 2019 declined by 14% on a constant currency basis to \$47m as a result of lower drilling activity. Weaker oil prices and cash constraints for exploration and discovery companies, particularly in North America, resulted in notably weaker demand for our products particularly in the second half of the year. As a result, revenue in North America declined by 29% on the prior year period. New business wins in the Middle East and Central Asia, and good global key account progress, helped to partially offset this.

Adjusted operating profit declined by 46% to \$4m, reflective of the weak drilling activity and the associated negative operating leverage impact.

* Adjusted for FX (where constant currency reflects prior year results translated at current year exchange rates) and the impact of M&A.

** M&A includes Coatings and Personal Care portfolio elimination following the Delden asset sale and the acquisition of Talc

*** See unaudited pro forma information

Finance report

Revenue

	2019 \$m	2018 \$m	Change
Personal Care	195.0	210.3	-7%
Coatings	320.1	362.2	-12%
Talc	150.7	21.5	601%
Chromium	171.0	184.3	-7%
Energy	46.6	54.9	-15%
Inter-segment	(9.8)	(11.0)	-11%
Revenue from continuing operations	873.6	822.2	6%
Discontinued operations – Surfactants	–	4.8	-100%
Total revenue from continuing and discontinued operations^Δ	873.6	827.0	6%

Operating profit

	2019 Operating profit \$m	Adjusting items \$m	2019 Adjusted operating profit ¹ \$m	2018 Operating profit \$m	Adjusting items \$m	2018 Adjusted operating profit ¹ \$m
Personal Care	29.1	13.6	42.7	40.4	11.8	52.2
Coatings	43.7	4.6	48.3	57.6	(5.1)	52.5
Talc	19.9	5.8	25.7	(0.2)	4.1	3.9
Chromium	12.6	5.6	18.2	15.8	17.2	33.0
Energy	3.8	–	3.8	7.1	–	7.1
Central costs	(8.2)	(7.5)	(15.7)	(35.8)	19.7	(16.1)
Operating profit from continuing operations	100.9	22.1	123.0	84.9	47.7	132.6
Discontinued operations – Surfactants	–	–	–	(10.4)	9.8	(0.6)
Operating profit from continuing and discontinued operations^Δ	100.9	22.1	123.0	74.5	57.5	132.0

^Δ Total operations (both continuing and discontinued).

¹ After adjusting items – see note 5.

Group results

In 2019 revenue from continuing operations rose 6% to \$874m as an extra ten months contribution from the Talc business offset declines in Personal Care, Coatings, Chromium and Energy. Revenue in the Personal Care segment declined 4% on an organic basis*, with growth in Cosmetics offset by weaker performance in AP actives as we grew volumes ahead of the start-up of the India plant in 2020. In Coatings revenue declined 8% on an organic basis* driven by weak end market demand, customer destocking and the impact of our portfolio simplification actions. Revenue in Chromium decreased by 7% due to weak global industrial demand and pricing, particularly in the second half. Energy revenue declined by 14% on a constant currency basis as a result of lower drilling activity in North America.

Operating profit rose 19% to \$100.9m due to the increase in reported revenue and a reduction in adjusting items. Adjusted operating profit from continuing operations declined from \$132.6m in 2018 to \$123.0m, a decrease of 7%. This was driven by declines in our most cyclically exposed businesses of Chromium and Energy, along with competitive challenges in AP actives. Reported profit after tax increased from \$41.4m in 2018 to \$46.4m in 2019 as lower adjusted operating profit and higher interest expenses were offset by lower adjusting items.

Adjusting items

In addition to the statutory results, the Group uses alternative performance measures such as adjusted operating profit and adjusted diluted earnings per share to provide additional useful analysis of the performance of the business. The Board considers these non-GAAP measures as an alternative way to measure the Group's performance so it is comparable to the prior year. Adjusting items in 2019 resulted in a charge of \$32.5m before tax, a decrease of \$25.0m

against last year. The key categories of adjusting items are summarised below. For more information on adjusting items and the Group's policy for adjusting items please see Note 5.

Credit/(charge)	Personal Care \$m	Coatings \$m	Talc \$m	Chromium \$m	Energy \$m	Central costs \$m	Total \$m
Restructuring	(0.7)	(2.6)	(0.2)	(0.1)	–	(1.5)	(5.1)
Business transformation	(1.6)	(0.5)	–	(0.4)	–	–	(2.5)
Environmental provisions	–	–	–	(4.9)	–	–	(4.9)
Amortisation of intangibles arising on acquisition	(11.3)	(1.5)	(5.6)	(0.2)	–	–	(18.6)
Release of contingent consideration	–	–	–	–	–	9.0	9.0
Total charge to operating profit	(13.6)	(4.6)	(5.8)	(5.6)	–	7.5	(22.1)
Sale of Dental plant	(9.0)	–	–	–	–	–	(9.0)
Charge to finance costs							
Mark to market of derivatives	–	–	–	–	–	(1.4)	(1.4)
Total	(22.6)	(4.6)	(5.8)	(5.6)	–	6.1	(32.5)

Restructuring

In 2019, restructuring costs relate predominantly to the organisational efficiency programme which has eliminated duplicate roles, reduced management layers and increased spans of control in order to realise cost savings and efficiencies across the Group. As in 2018, restructuring also includes the IFRS 2 cost of buyouts associated with the CEO and CFO's appointments in 2016.

Business transformation

In 2019 we initiated a programme to review and optimise our supply chain and manufacturing footprint across our Coatings, Personal Care, Energy and Chromium businesses. Costs incurred in 2019 related to exiting supply contracts and consulting fees incurred to enhance our operating model.

Environmental provisions

The Group's environmental provision is calculated on a discounted cash flow basis, reflecting the time period over which spending is estimated to take place. A change in discount rates has increased the liability by \$4.9m in the year. As these costs relate to non-operational facilities the costs associated are classed as adjusting items.

Amortisation of intangibles arising on acquisition

Amortisation of \$18.6m (2018: \$15.0m) represents the charge in respect of the Group's acquired intangible assets. As in previous years these are included in adjusting items in order to present a more reflective view of the Group's overall performance and the key business drivers that underpin it.

Release of contingent consideration

An assessment of the potential payments to be made under the earnout mechanism in relation to the Talc acquisition has led to the release of \$9.0m.

Sale of Dental plant

The loss on the exit of a non-core plant (part of the Dental business) has been treated as an adjusting item in 2019.

Mark to market of derivatives

The movements in the mark to market valuation of financial instruments which are not in hedging relationships do not form part of the underlying performance of the business and thus are treated as adjusting items.

Hedging

Cash flow hedges are used as part of a programme to manage our exposure to interest rate risk particularly associated with USD and EUR interest payments. In 2019, interest rate movements were such that the net impact of these hedge transactions was a credit to net finance costs of \$0.3m (2018: credit of \$0.1m).

Central costs

Central costs are those costs that are not identifiable as expenses of a particular business and comprise expenditures of the Board of Directors and corporate head office. In 2018, central costs of \$15.7m were broadly similar to the \$16.1m of central costs for the previous year.

Other expenses

Other expenses are administration costs incurred and paid by the Group's pension schemes, which relate primarily to former employees of legacy businesses, and were \$1.5m in 2019 compared to \$1.6m in the previous year.

Net finance costs

	2019 \$m	2018 \$m
Finance income	0.4	0.3
Finance cost of borrowings	(23.7)	(16.8)
	(23.3)	(16.5)
Net pension finance costs	(0.5)	(0.4)
Discount unwind on provisions	(2.4)	(1.0)
Fair value movement on derivatives	(1.4)	–
Interest on lease liabilities	(1.8)	–
Net finance costs	(29.4)	(17.9)

Net finance costs for 2019 were \$29.4m, an increase of \$11.5m on last year. The increase was primarily due to the acquisition of Mondo, completed in October 2018, which was part funded by an increase in borrowings. Finance costs comprise interest payable on borrowings calculated using the effective interest rate method, facility arrangement fees, the unwinding of discounts on the Group's environmental provisions, fair value movement on derivatives and interest charged on lease liabilities. Pension finance costs which are a function of discount rates under IAS 19 and the value of schemes' deficit or surplus positions were broadly consistent in 2019 at \$0.5m compared to \$0.4m in 2018. The discount unwind on provisions relates to the annual time value of the Group's environmental provisions which are calculated on a discounted basis. The increase to the environmental provision in 2018 has resulted in a higher discount unwind in 2019.

Taxation

Tax charge

	2019 Effective rate per cent	2018 Effective rate per cent
Reported tax charge	23.9	23.9
Adjusting items	–	–
After adjusting items	22.1	21.6

The Group incurred a tax charge of \$20.7m (2018: \$24.4m) on adjusted profit before tax excluding discontinued operations, resulting in an effective tax rate of 22.1% (2018: 21.6%). The Group's effective tax rate in 2019 is broadly in line with that which would be expected given the geographic mix of territories in which the Group operates, and following the widespread implementation of the OECD's Base Erosion and Profit Shifting ('BEPS') initiatives. Tax on adjusting items primarily relates to the amortisation of intangible assets.

Earnings per share

To better understand the underlying performance of the Group, earnings per share reported under IFRS is adjusted for items classified as adjusting and includes profits from both continuing and discontinued operations.

Adjusted diluted earnings per share was 12.4 cents^Δ for 2019 compared to 16.9 cents^Δ in the previous year, a decrease of 27% due to lower profit, higher net finance costs as well as the increased weighted average number of shares following the rights issue in October 2018. Basic earnings per share before adjusting items was 8.0 cents^Δ

compared to 7.9 cents^A in 2018. Adjusting items increased basic earnings per share by 4.6 cents^A in 2019 (9.1 cents^A in 2018).

Note 7 provides disclosure of earnings per share calculations both including and excluding the effects of adjusting items and the potential dilutive effects of outstanding and exercisable options.

Distributions to shareholders

During 2019, the Group paid a final dividend in respect of the year ended 31 December 2018 of 5.70 cents per share (2018: 5.58 cents[†]). An interim dividend of 2.80 cents per share (2018: 2.70 cents[†]) was paid on 27 September 2019 and the Board is recommending a final dividend of 5.75 cents per share which will be paid on 29 May 2020.

The Board have adopted a dividend policy with the intent to declare progressive ordinary dividends, normally with a dividend cover of at least two times adjusted earnings. The expectation is that interim dividends represent one third of the prior full year dividend. Subject to maintaining balance sheet flexibility and strength in the context of the Company's investment plans, additional returns to shareholders will be considered where net debt is structurally below one times earnings (EBITDA). The Company regularly reviews its distributable reserves and makes dividend recapitalisations as and when necessary to ensure it can make all expected dividend payments.

Adjusted cash flow

The adjusted cash flow which excludes the cash effect of adjusting items from operating cash flow is summarised below. A reconciliation of statutory operating profit to EBITDA is shown in the alternative performance measures information.

	2019 \$m	2018 \$m
EBITDA [◇]	174.5	162.9
Change in working capital	33.0	(29.9)
Capital expenditure	(47.3)	(50.8)
Other	(5.4)	(4.5)
Adjusted operating cash flow	154.8	77.7
Pension payments	(1.2)	(1.2)
Interest and tax	(26.8)	(21.2)
Adjusting items	(30.4)	(21.8)
Payment of lease liabilities	(6.0)	(0.3)
Free cash flow	90.4	33.2
Issue of shares	0.1	223.3
Dividends paid	(49.3)	(41.9)
Acquisitions and disposals	(2.1)	(426.7)
Currency fluctuations	4.8	5.1
Movement in net debt	43.9	(207.0)
Net debt at start of year	(498.1)	(291.1)
Net debt at end of year	(454.2)	(498.1)

[◇] EBITDA – earnings before interest, tax, adjusting items, depreciation and amortisation.

Adjusted operating cash flow increased by \$77.1m to \$154.8m for 2019 due to working capital inflows of \$33.0m, reflective of a sustainable improvement in our inventory position following the introduction of digital demand planning tools and a reduction in 12 month pro forma revenue. Capital expenditure of \$47.3m was broadly comparable to \$50.8m in 2018.

Free cash flow increased from \$33.2m to \$90.4m as working capital inflows more than offset the increase in adjusting items, interest and tax payments. Adjusting items of \$30.4m include a net outflow of \$19.0m to the previous owners of the Talc business following the successful settlement of an historic tax case in Finland and a further \$9.7m outflow in settlement of a commercial dispute relating to the Surfactants business disposed of in 2018. Pension payments in 2019 were in line with the prior year at \$1.2m as the 2018 triennial review of the UK pension scheme concluded that no cash top up payments will be required from Elementis until at least 2021.

Whilst net debt decreased from \$498m in 2018 to \$454m in 2019, a reduction of \$44m, net debt to pro forma adjusted EBITDA increased from 2.5x*** in 2018 to 2.7x*** in 2019. The increase in leverage is due to the decline in adjusted EBITDA, reflective of lower earnings in Personal Care, Coatings, Chromium and Energy.

Balance sheet

	2019 \$m	2018 \$m
Intangible fixed assets	958.1	976.6
Tangible fixed assets	513.6	478.2
Working capital	152.2	183.9
Net tax liabilities	(137.9)	(131.6)
Provisions and retirement benefit obligations	(68.7)	(58.7)
Financial liabilities	(15.1)	(40.3)
Lease liabilities	(46.9)	–
Unamortised syndicate fees	5.1	5.6
Net debt	(454.2)	(498.1)
Total equity	906.2	915.6

Group equity decreased by \$9.4m in 2019 (2018: increase of \$213.3m). Intangible fixed assets decreased by \$18.5m due to \$18.6m amortisation of intangibles arising on acquisition and \$8.6m of disposals that were partially offset by \$6.5m of foreign exchange gains. Tangible fixed assets increased by \$35.4m, with gross PPE additions of \$48.4m and right of use asset capitalisation of \$48.2m partially offset by depreciation of \$50.9m and disposals of \$5.8m.

Working capital comprises inventories, trade and other receivables, trade and other payables and derivatives. Working capital decreased by \$31.7m in 2019, made up of \$11.0m sustainable working capital reductions driven by our multi-year improvement programme of which the bulk relates to inventory savings, reflective of our new digital supply chain management. The additional reduction in working capital reflects the decline in underlying 12 month pro forma revenue and working capital management.

Net tax liabilities increased by \$6.3m, as the tax charge on profits for the year after adjusting items and currency translation adjustments exceeded actual cash tax paid. Movements in provisions and retirement benefit obligations are discussed elsewhere in this report.

ROCE (excluding goodwill) has remained stable at 15%***, with reduced adjusted operating profit offset by lower working capital.

The main dollar exchange rates relevant to the Group are set out below.

	Year end	2019 Average	Year end	2018 Average
Pounds sterling	0.75	0.78	0.79	0.75
Euro	0.89	0.89	0.87	0.84

Provisions

The Group records a provision in the balance sheet when it has a present obligation as a result of past events, which is expected to result in an outflow of economic benefits in order to settle the obligation. The Group calculates provisions on a discounted basis. At the end of 2019, the Group held provisions of \$51.6m (2018: \$48.8m) consisting of environmental provisions of \$44.1m (2018: \$43.3m), self-insurance provisions of \$2.2m (2018: \$1.5m) and restructuring and other provisions of \$5.3m (2018: \$4.0m).

Environmental provisions have increased by \$0.8m in 2019, with \$4.9m taken through adjusting items as a change in the discount rate applied to the liabilities, \$2.2m of unwind of discount in the year offset by a \$6.7m utilisation. The self-insurance provision represents the Group's estimate of its liability arising from retained liabilities under the Group's insurance programme.

Within the restructuring and other provisions categories the majority of the balance relates to the organisational efficiency programme which has eliminated duplicate roles, reduced management layers and increased spans of control in order to realise cost savings and efficiencies across the Group.

Pensions and other post retirement benefits

	2019 \$m	2018 \$m
Net (surplus)/liability:		
UK	(7.4)	(22.1)
US	15.9	21.3
Other	8.6	10.7
	17.1	9.9

UK plan

The largest of the Group's retirement plans is the UK defined benefit pension scheme ('UK Scheme') which at the end of 2019 had a surplus, under IAS 19, of \$7.4m (2018: \$22.1m). The UK Scheme is relatively mature, with approximately two thirds of its gross liabilities represented by pensions in payment, and is closed to new members. Liability adjustments of \$57.7m (2018: \$(45.7)m) which arose due to lower discount rates based on real corporate bond yields outweighed the return on plan assets of \$62.1m (2018: \$(21.8)m). Company contributions of \$nil (2018: \$0.5m) reflect the funding agreement reached with the UK Trustees following the 2018 triennial valuation. Under this agreement top up contributions are no longer required until at least 2021.

US plan

In the US, the Group reports two post retirement plans under IAS 19: a defined benefit pension plan with a deficit value at the end of 2019 of \$9.9m (2018: \$15.7m), and a post retirement medical plan with a liability of \$6.0m (2018: \$5.6m). The US pension plans are smaller than the UK plan, and in 2019 the overall deficit value of the US plans decreased by \$5.4m as the financial cost of the liability of \$5.0m (2018: \$4.6m) and the actuarial increases in the liability of \$11.8m (2018: \$8.5m decrease) were more than offset by return on plan assets of \$21.1m (2018: \$(4.9)m) and employer contributions of \$1.5m (2018: \$1.3m).

Other plans

Other liabilities at 31 December 2019 amounted to \$8.6m (2018: \$10.7m) and relate to pension arrangements for a relatively small number of employees in Germany, certain UK legacy benefits and two pension schemes acquired as part of the SummitReheis transaction in 2017.

FINANCIAL LIABILITIES

Financial liabilities at 31 December 2019 include \$13.0m of contingent consideration in respect of Mondo (2018: \$21.4m) and \$nil (2018: \$18.9m) in respect of an outstanding historical Mondo tax case in Finland which was settled in the year.

Brexit

During 2019, the Board continued to monitor the impact of Brexit amidst a period of political uncertainty. Management remains of the view that the impact on the Group is expected to be of low materiality. We continue to monitor the status of the trading relationship between the EU and the UK. A cross-functional team is in place to assess potential risks and impacts so that we can take appropriate action in relation to our supply chain and customers. Further information on how we have assessed and are mitigating the risks associated with Brexit can be found in the principal risks section of the 2019 Annual Report.

Events after the balance sheet date

There were no significant events after the balance sheet date.

Δ Total operations (both continuing and discontinued).

† Rebased for the effects of the rights issue.

1 After adjusting items – see note 5.

* Adjusted for FX (where constant currency reflects prior year results translated at current year exchange rates) and the impact of M&A.

** See alternative performance measures information

*** See unaudited pro forma information.

Consolidated income statement for the year ended 31 December 2019

	2019 \$m	2018 \$m
Revenue	873.6	822.2
Cost of sales	(552.2)	(516.6)
Gross profit	321.4	305.6
Distribution costs	(127.3)	(111.6)
Administrative expenses	(93.2)	(109.1)
Operating profit	100.9	84.9
Loss on disposal	(9.0)	–
Other expenses ¹	(1.5)	(1.6)
Finance income	0.4	0.3
Finance costs	(29.8)	(18.2)
Profit before income tax	61.0	65.4
Tax	(14.6)	(15.6)
Profit from continuing operations	46.4	49.8
Loss from discontinued operations	–	(8.4)
Profit for the year	46.4	41.4
Attributable to:		
Equity holders of the parent	46.4	41.4
Earnings per share		
From continuing operations		
Basic (cents)	8.0	9.5
Diluted (cents)	7.9	9.5
From continuing and discontinued operations		
Basic (cents)	8.0	7.9
Diluted (cents)	7.9	7.9

¹ Other expenses comprise administration expenses for the Group's pension schemes.

Consolidated statement of comprehensive income for the year ended 31 December 2019

	2019 \$m	2018 \$m
Profit for the year	46.4	41.4
Other comprehensive income:		
Items that will not be reclassified subsequently to profit and loss:		
Remeasurements of retirement benefit obligations	(11.1)	5.3
Deferred tax associated with retirement benefit obligations	1.3	0.7
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations	(23.9)	0.5
Effective portion of change in fair value of net investment hedge	27.5	(20.5)
Recycling of deferred foreign exchange losses on disposal	0.4	4.2
Effective portion of changes in fair value of cash flow hedges	(2.8)	1.4
Fair value of cash flow hedges transferred to income statement	–	(0.1)
Exchange differences on translation of share options reserves	2.7	(0.4)
Other comprehensive income	(5.9)	(8.9)
Total comprehensive income for the year	40.5	32.5
Attributable to:		
Equity holders of the parent	40.5	32.5
Total comprehensive income for the year	40.5	32.5

Consolidated balance sheet as at 31 December 2019

	2019 31 December \$m	Restated ¹ 2018 31 December \$m	Restated ² 2017 31 December \$m
Non-current assets			
Goodwill and other intangible assets	958.1	976.6	717.2
Property, plant and equipment	513.6	478.2	219.5
ACT recoverable	4.8	9.8	16.2
Deferred tax assets	28.2	24.4	0.2
Net retirement benefit surplus	7.4	22.1	21.9
Total non-current assets	1,512.1	1,511.1	975.0
Current assets			
Inventories	168.7	188.7	143.6
Trade and other receivables	117.9	133.8	119.3
Derivatives	0.1	2.0	0.9
Current tax assets	2.5	3.0	4.3
Cash and cash equivalents	103.9	96.1	55.0
Total current assets	393.1	423.6	323.1
Assets classified as held for sale	–	–	58.2
Total assets	1,905.2	1,934.7	1,356.3
Current liabilities			
Bank overdrafts and loans	(2.2)	(2.8)	(2.7)
Trade and other payables	(134.5)	(140.6)	(117.7)
Financial liabilities	(2.1)	(0.1)	–
Current tax liabilities	(23.2)	(17.1)	(14.1)
Lease liabilities	(7.1)	–	–
Provisions	(6.4)	(7.3)	(10.8)
Total current liabilities	(175.5)	(167.9)	(145.3)
Non-current liabilities			
Loans and borrowings	(550.8)	(585.8)	(338.1)
Retirement benefit obligations	(24.5)	(32.0)	(32.4)
Deferred tax liabilities	(150.2)	(151.7)	(93.4)
Lease liabilities	(39.8)	–	–
Provisions	(45.2)	(41.5)	(21.9)
Financial liabilities	(13.0)	(40.2)	–
Total non-current liabilities	(823.5)	(851.2)	(485.8)
Liabilities classified as held for sale	–	–	(22.9)
Total liabilities	(999.0)	(1,019.1)	(654.0)
Net assets	906.2	915.6	702.3
Equity			
Share capital	52.1	52.1	44.4
Share premium	237.7	237.6	21.9
Other reserves	91.1	85.5	99.0
Retained earnings	525.3	540.4	537.0
Total equity attributable to equity holders of the parent	906.2	915.6	702.3
Total equity	906.2	915.6	702.3

¹ 31 December 2018 balance sheet has been restated to show the UK pension surplus of \$22.1m within non-current assets and to offset unamortised syndicate fees of \$5.6m borrowings to which they relate within non-current liabilities.

² 31 December 2017 balance sheet has been restated to show the UK pension surplus of \$21.9m within non-current assets and to offset unamortised syndicate fees of \$5.3m against the borrowings to which they relate within non-current liabilities.

Consolidated statement of changes in equity for the year ended 31 December 2019

	Share capital \$m	Share premium \$m	Translation reserve \$m	Hedging reserve \$m	Other reserves \$m	Retained earnings \$m	Total equity \$m
Balance at 1 January 2018	44.4	21.9	(57.2)	(6.9)	163.1	537.0	702.3
Impact following adoption of IFRS 15	–	–	–	–	–	(0.9)	(0.9)
Revised at 1 January 2018	44.4	21.9	(57.2)	(6.9)	163.1	536.1	701.4
Comprehensive income							
Profit for the year	–	–	–	–	–	41.4	41.4
Other comprehensive income							
Exchange differences	–	–	(20.0)	–	(0.4)	–	(20.4)
Recycling of deferred foreign exchange losses on disposal	–	–	4.2	–	–	–	4.2
Fair value of cash flow hedges transferred to the income statement	–	–	–	(0.1)	–	–	(0.1)
Effective portion of changes in fair value of cash flow hedges	–	–	–	1.4	–	–	1.4
Remeasurements of retirement benefit obligations	–	–	–	–	–	5.3	5.3
Deferred tax adjustment on pension scheme deficit	–	–	–	–	–	0.7	0.7
Transfer	–	–	–	–	(1.5)	1.5	–
Total other comprehensive income	–	–	(15.8)	1.3	(1.9)	7.5	(8.9)
Total comprehensive income	–	–	(15.8)	1.3	(1.9)	48.9	32.5
Transactions with owners:							
Purchase of own shares	–	–	–	–	–	(0.3)	(0.3)
Issue of shares by the Company ¹	7.7	215.7	–	–	–	–	223.4
Share based payments	–	–	–	–	2.9	–	2.9
Deferred tax on share based payments recognised within equity	–	–	–	–	–	(2.4)	(2.4)
Dividends paid	–	–	–	–	–	(41.9)	(41.9)
Total transactions with owners	7.7	215.7	–	–	2.9	(44.6)	181.7
Balance at 31 December 2018	52.1	237.6	(73.0)	(5.6)	164.1	540.4	915.6
Balance at 1 January 2019	52.1	237.6	(73.0)	(5.6)	164.1	540.4	915.6
Impact following adoption of IFRS 16	–	–	–	–	–	(4.0)	(4.0)
Revised at 1 January 2019	52.1	237.6	(73.0)	(5.6)	164.1	536.4	911.6
Comprehensive income							
Profit for the year	–	–	–	–	–	46.4	46.4
Other comprehensive income							
Exchange differences	–	–	3.6	–	2.7	–	6.3
Recycling of deferred foreign exchange losses on disposal	–	–	0.4	–	–	–	0.4
Effective portion of changes in fair value of cash flow hedges	–	–	–	(2.8)	–	–	(2.8)
Remeasurements of retirement benefit obligations	–	–	–	–	–	(11.1)	(11.1)
Deferred tax adjustment on pension scheme deficit	–	–	–	–	–	1.3	1.3
Transfer	–	–	–	–	(1.3)	1.3	–
Total other comprehensive income	–	–	4.0	(2.8)	1.4	(8.5)	(5.9)
Total comprehensive income	–	–	4.0	(2.8)	1.4	37.9	40.5
Transactions with owners:							
Issue of shares by the Company	–	0.1	–	–	–	–	0.1
Share based payments	–	–	–	–	3.0	–	3.0
Deferred tax on share based payments recognised within equity	–	–	–	–	–	0.3	0.3
Dividends paid	–	–	–	–	–	(49.3)	(49.3)
Total transactions with owners	–	0.1	–	–	3.0	(49.0)	(45.9)
Balance at 31 December 2019	52.1	237.7	(69.0)	(8.4)	168.5	525.3	906.2

1 The rights issue raised gross proceeds of \$232.7m. The total amount capitalised to share capital and share premium was \$222.2m (\$232.7m less issuance costs of \$10.5m).

Consolidated cash flow statement for the year ended 31 December 2019

	2019 \$m	2018 \$m
Operating activities:		
Profit for the year	46.4	41.4
Adjustments for:		
Other expenses	1.5	1.6
Finance income	(0.4)	(0.2)
Finance costs	29.8	18.2
Tax charge	14.6	13.6
Depreciation and amortisation	70.1	45.9
(Decrease)/increase in provisions	(27.8)	9.2
Pension payments net of current service cost	(1.2)	1.9
Share based payments	3.0	2.8
Loss/(profit) on disposal of business	9.0	(12.1)
Operating cash flow before movement in working capital	145.0	122.3
Decrease/(increase) in inventories	18.6	(24.6)
Decrease/(increase) in trade and other receivables	15.5	(2.8)
(Decrease)/increase in trade and other payables	(8.5)	10.6
Cash generated by operations	170.6	105.5
Income taxes paid	(2.2)	(6.9)
Interest paid	(25.0)	(14.3)
Net cash flow from operating activities	143.4	84.3
Investing activities:		
Interest received	0.4	–
Disposal of property, plant and equipment	0.8	0.6
Purchase of property, plant and equipment	(47.7)	(50.0)
Purchase of business net of cash acquired	–	(484.7)
Disposal of business	(2.1)	58.0
Acquisition of intangible assets	(0.4)	(1.4)
Net cash flow from investing activities	(49.0)	(477.5)
Financing activities:		
Issue of shares by the Company and the ESOT net of issue costs	0.1	223.3
Dividends paid	(49.3)	(41.9)
Purchase of shares by the ESOT	–	(0.3)
Proceeds on issue of new debt	–	554.7
Net movement on existing debt	(30.4)	(296.7)
Payment of lease liabilities	(6.0)	–
Net cash used in financing activities	(85.6)	439.1
Net increase in cash and cash equivalents	8.8	45.9
Cash and cash equivalents at 1 January	96.1	55.0
Foreign exchange on cash and cash equivalents	(1.0)	(4.8)
Cash and cash equivalents at 31 December	103.9	96.1

Notes to the financial statements

1. Preparation of the preliminary announcement

The financial information in this statement does not constitute the Company's statutory accounts for the years ended 31 December 2019 or 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies, and those for 2019 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

This preliminary announcement was approved by the Board of Directors on 4 March 2020.

2. Basis of preparation

Elementis plc (the "Company") is incorporated in the UK. The information within this document has been prepared based on the Company's consolidated financial statements which are prepared in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS) and consistent with the accounting policies as set out in the previous consolidated financial statements.

The Group's financial statements have been prepared on the historical cost basis except that derivative financial instruments are stated at their fair value. Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell. The preparation of financial statements requires the application of estimates and judgements that affect the reported amounts of assets and liabilities, revenues and costs and related disclosures at the balance sheet date.

The Group's accounting policies have been updated following the adoption of a number of new standards and amendments to standards that have been issued and are now effective for the Group. The most significant of these, and their impact on the Group's accounting, are set out below:

Initial adoption of IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective approach on transition with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application as permitted under the transitional provisions.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right of use assets were measured at either:

- their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted at the Group's incremental borrowing rate as at 1 January 2019. The Group has applied this methodology to the some of its property leases.
- An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. This has been applied to the majority of the Group's leases comprising leases of property, motor vehicles, fixtures and fittings and items of plant and equipment.

Going concern

The Group and Company financial statements have been prepared on the going concern basis, as the directors are satisfied that the Group and Company have adequate resources to continue to operate for at least a period of 12 months from the date of approval of the financial statements. An explanation of the directors' assessment of using the going concern basis is given in the Directors' report in the Annual Report and Accounts 2019 which will be made available to shareholders on 25 March 2020.

Reporting currency

As a consequence of the majority of the Group's sales and earnings originating in US dollars or US dollar linked currencies, the Group has chosen the US dollar as its reporting currency. This aligns the Group's external reporting with the profile of the Group, as well as with internal management reporting.

3. Finance income

	2019 \$m	2018 \$m
Interest on bank deposits	0.4	0.3

4. Finance costs

	2019 \$m	2018 \$m
Interest on bank loans	23.7	16.8
Pension and other post retirement liabilities	0.5	0.4
Unwind of discount on provisions	2.4	1.0
Fair value movement on derivatives	1.4	–
Interest on lease liabilities	1.8	–
	29.8	18.2

5. Adjusting items and alternative performance measures

	2019 \$m	Adjusting items on discontinued operations \$m	2019 \$m	2018 \$m	Adjusting items on discontinued operations \$m	2018 \$m
Restructuring	5.1	–	5.1	0.2	–	0.2
Business transformation	2.5	–	2.5	5.6	–	5.6
Environmental provisions						
Increase in provisions due to additional remediation work identified	–	–	–	16.5	–	16.5
Increase in provisions due to change in discount rate	4.9	–	4.9	–	–	–
Costs related to acquisition activities	–	–	–	16.5	–	16.5
Uplift due to fair value of Talc inventory	–	–	–	2.9	–	2.9
Sale of Jersey City site	–	–	–	(12.7)	–	(12.7)
Sale of Surfactants business	–	–	–	0.5	–	0.5
Amortisation of intangibles arising on acquisition	18.6	–	18.6	15.0	–	15.0
GMP Pension	–	–	–	3.2	–	3.2
Surfactants commercial settlement	–	–	–	–	9.8	9.8
Release of contingent consideration	(9.0)	–	(9.0)	–	–	–
	22.1	–	22.1	47.7	9.8	57.5
Sale of Dental plant	9.0	–	9.0	–	–	–
Mark to market of derivative financial instruments	1.4	–	1.4	–	–	–
Tax credit in relation to adjusting items	(6.1)	–	(6.1)	(11.5)	(1.7)	(13.2)
Tax arising on the restructuring of German operations	–	–	–	2.7	–	2.7
	26.4	–	26.4	38.9	8.1	47.0

A number of items have been recorded under 'adjusting items' in 2019 by virtue of their size and/or one time nature, in line with our accounting policy in Note 1, in order to provide additional useful analysis of the Group's results. The net impact of these items on the Group profit before tax for the year is a debit of \$32.5m (2018: debit of \$57.5m). The items fall into a number of categories, as summarised below:

Restructuring – In 2019, restructuring costs relate predominantly to the organisational efficiency programme which has eliminated duplicate roles, reduced management layers and increased spans of control in order to realise cost savings and efficiencies across the Group. As in 2018 restructuring also includes the IFRS 2 cost of buyouts associated with the CEO and CFO's appointments in 2016.

Business transformation – In 2019 we initiated a programme to review and optimise our supply chain and manufacturing footprint across our Coatings, Personal Care, Energy and Chromium businesses. Costs incurred in 2019 related to exiting supply contracts and consulting fees incurred to enhance our operating model. In 2018 a programme to transform the Coatings segment had been implemented focusing on re-engineering our approach to markets (direct vs distributor), our underlying asset base and our product offerings in order to leverage our international networks and key account management.

Increase in environmental provisions due to additional remediation work identified – assessments at the end of 2018 had resulted in an increased provision required at a number of our legacy sites. As these costs relate to non-operational facilities they are classed as adjusting items.

Increase in environmental provisions due to change in discount rate – The Group's environmental provision is calculated on a discounted cash flow basis, reflecting the time period over which spending is estimated to take place. A change in discount rates has increased the liability by \$4.9m in the year. As these costs relate to non-operational facilities the costs associated are classed as adjusting items.

Costs relating to acquisition activities – these were one-off costs predominantly associated with the acquisition of Talc in 2018 – primarily the write off of the set-up costs of the previous financing facility (now replaced by a new arrangement), bank and lawyers fees and retention bonuses for Talc and employees.

Uplift due to fair value of Talc inventory – in accordance with IFRS 3, inventory held within Talc was revalued to fair value on acquisition, representing an uplift of \$2.9m over the book value. As all Talc stock to which this uplift relates was sold by 31 December 2018, the additional expense recognised in cost of sales due to this fair value uplift was classed as an adjusting item in 2018.

Sale of Jersey City site – In 2018 Elementis disposed of a legacy site in Jersey City. The proceeds on disposal less costs to dispose have been treated as an adjusting item due to their size and one-off nature.

Sale of Surfactants business/disposal costs – The loss on sale of the assets and business has been treated as an adjusting item in 2018.

Amortisation of intangibles arising on acquisition – these costs are excluded from operating profit to provide readers of the accounts with a better understanding of the Group's results on its operating activities. In 2019 and 2018 this line item includes amortisation on intangibles acquired as part of the SummitReheis and Mondo acquisitions completed in March 2017 and October 2018 respectively.

GMP Pension – on 26 October 2018, the High Court ruled on the Lloyds Bank Guaranteed Minimum Pension inequalities case. In response to this our actuaries have included a past service cost of \$3.2m for the estimated costs arising from the judgement.

Surfactants commercial settlement – these are costs incurred in settlement of a commercial dispute relating to the Surfactants business disposed of in 2018.

Release of contingent consideration - An assessment of the potential payments to be made under the earnout mechanism in relation to the Talc acquisition has led to the release of \$9.0m.

Sale of Dental plant – The loss on the exit of a non-core plant (part of the Dental business) has been treated as an adjusting item in 2019.

Mark to market of derivatives - The movements in the mark to market valuation of financial instruments which are not in hedging relationships do not form part of the underlying performance of the business and thus are treated as adjusting items.

Tax on adjusting items – this is the net impact of tax relating to the adjusting items listed above.

Tax arising on the restructuring of our German operations – during 2018 an internal restructuring exercise was undertaken in order to optimise the operational efficiency of the Group on a go forward basis. This restructuring resulted in a one-off tax charge.

To support comparability with the financial statements as presented in 2019, the reconciliation to the adjusted consolidated income statement is shown below.

	2019 Profit and loss on continuing operations \$m	2019 Adjusting items on continuing operations \$m	2019 Profit and loss after adjusting items on continuing operations \$m	2019 Profit and loss after adjusting items on total operations \$m
Revenue	873.6	–	873.6	873.6
Cost of sales	(552.2)	–	(552.2)	(552.2)
Gross profit	321.4	–	321.4	321.4
Distribution costs	(127.3)	–	(127.3)	(127.3)
Administrative expenses	(93.2)	22.1	(71.1)	(71.1)
Operating profit	100.9	22.1	123.0	123.0
Loss on disposal	(9.0)	9.0	–	–
Other expenses	(1.5)	–	(1.5)	(1.5)
Finance income	0.4	–	0.4	0.4
Finance costs	(29.8)	1.4	(28.4)	(28.4)
Profit before income tax	61.0	32.5	93.5	93.5
Tax	(14.6)	(6.1)	(20.7)	(20.7)
Profit for the year	46.4	26.4	72.8	72.8
Attributable to:				
Equity holders of the parent	46.4	26.4	72.8	72.8
Earnings per share				
Basic (cents)	8.0	4.6	12.6	12.6
Diluted (cents)	7.9	4.5	12.4	12.4

	2018 Profit and loss on continuing operations \$m	2018 Adjusting items on continuing operations \$m	2018 Profit and loss after adjusting items on continuing operations \$m	2018 Profit and loss on discontinued operations \$m	2018 Adjusting items on discontinued operations \$m	2018 Profit and loss after adjusting items on discontinued operations \$m	2018 Profit and loss after adjusting items on total operations \$m
Revenue	822.2	–	822.2	4.8	–	4.8	827.0
Cost of sales	(516.6)	–	(516.6)	(4.3)	–	(4.3)	(520.9)
Gross profit	305.6	–	305.6	0.5	–	0.5	306.1
Distribution costs	(111.6)	–	(111.6)	(0.8)	–	(0.8)	(112.4)
Administrative expenses	(109.1)	47.7	(61.4)	(10.1)	9.8	(0.3)	(61.7)
Operating profit	84.9	47.7	132.6	(10.4)	9.8	(0.6)	132.0
Other expenses	(1.6)	–	(1.6)	–	–	–	(1.6)
Finance income	0.3	–	0.3	–	–	–	0.3
Finance costs	(18.2)	–	(18.2)	–	–	–	(18.2)
Profit before income tax	65.4	47.7	113.1	(10.4)	9.8	(0.6)	112.5
Tax	(15.6)	(8.8)	(24.4)	2.0	(1.7)	0.3	(24.1)
Profit for the year	49.8	38.9	88.7	(8.4)	8.1	(0.3)	88.4
Attributable to:							
Equity holders of the parent	49.8	38.9	88.7	(8.4)	8.1	(0.3)	88.4
Earnings per share restated							
Basic (cents)	9.5	7.5	17.0	(1.6)	1.6	–	17.0
Diluted (cents)	9.5	7.4	16.9	(1.6)	1.6	–	16.9

To support comparability with the financial statements as presented in 2019, a reconciliation from reported profit/(loss) before interest to adjusted profit before income tax by segment is shown below for each year.

	2019									
	Personal Care \$m	Coatings \$m	Talc \$m	Chromium \$m	Energy \$m	Segment totals \$m	Central costs \$m	Total of continuing operations \$m	Discontinued operations \$m	Total \$m
Reported operating profit/(loss)	29.1	43.7	19.9	12.6	3.8	109.1	(8.2)	100.9	–	100.9
Adjusting Items										
Restructuring	0.7	2.6	0.2	0.1	–	3.6	1.5	5.1	–	5.1
Business Transformation	1.6	0.5	–	0.4	–	2.5	–	2.5	–	2.5
Increase in environmental provisions due change in discount rate	–	–	–	4.9	–	4.9	–	4.9	–	4.9
Amortisation of intangibles arising on acquisition	11.3	1.5	5.6	0.2	–	18.6	–	18.6	–	18.6
Release of contingent consideration	–	–	–	–	–	–	(9.0)	(9.0)	–	(9.0)
Adjusted operating profit/(loss)	42.7	48.3	25.7	18.2	3.8	138.7	(15.7)	123.0	–	123.0
Other expenses	–	–	–	–	–	–	(1.5)	(1.5)	–	(1.5)
Finance income	–	–	–	–	–	–	0.4	0.4	–	0.4
Finance costs	–	–	–	–	–	–	(28.4)	(28.4)	–	(28.4)
Adjusted profit before income tax	42.7	48.3	25.7	18.2	3.8	138.7	(45.2)	93.5	–	93.5

	Personal Care \$m	Coatings \$m	Talc \$m	Chromium \$m	Energy \$m	Segment totals \$m	Central costs \$m	Total of continuing operations \$m	Discontinued operations \$m	Total \$m
Reported operating profit/(loss)	40.4	57.6	(0.2)	15.8	7.1	120.7	(35.8)	84.9	(10.4)	74.5
Adjusting Items										
Restructuring	–	–	–	–	–	–	0.2	0.2	–	0.2
Business Transformation	–	5.6	–	–	–	5.6	–	5.6	–	5.6
Increase in environmental provisions due to additional remediation work identified	–	–	–	17.0	–	17.0	(0.5)	16.5	–	16.5
Costs related to acquisition activities	0.2	–	–	–	–	0.2	16.3	16.5	–	16.5
Uplift due to fair value of Talc inventory	–	–	2.9	–	–	2.9	–	2.9	–	2.9
Sale of Jersey City site	–	(12.7)	–	–	–	(12.7)	–	(12.7)	–	(12.7)
Sale of Surfactants business	–	–	–	–	–	–	0.5	0.5	–	0.5
Amortisation of intangibles arising on acquisition	11.6	2.0	1.2	0.2	–	15.0	–	15.0	–	15.0
GMP Pension	–	–	–	–	–	–	3.2	3.2	–	3.2
Surfactants commercial settlement	–	–	–	–	–	–	–	–	9.8	9.8
Adjusted operating profit/(loss)	52.2	52.5	3.9	33.0	7.1	148.7	(16.1)	132.6	(0.6)	132.0
Other expenses	–	–	–	–	–	–	(1.6)	(1.6)	–	(1.6)
Finance income	–	–	–	–	–	–	0.3	0.3	–	0.3
Finance costs	–	–	–	–	–	–	(18.2)	(18.2)	–	(18.2)
Adjusted profit before income tax	52.2	52.5	3.9	33.0	7.1	148.7	(35.6)	113.1	(0.6)	112.5

6. Income tax expense

	2019 \$m	2018 \$m
Current tax on continuing operations:		
UK Corporation tax	5.7	8.1
Overseas corporation tax on continuing operations	6.6	11.7
Adjustments in respect of prior years:		
United Kingdom	–	(0.9)
Overseas	1.1	(0.2)
Total current tax	13.4	18.7
Deferred tax:		
United Kingdom	(0.1)	(1.4)
Overseas	1.4	3.8
Adjustment in respect of prior years:		
United Kingdom	–	(0.4)
Overseas	(0.1)	(5.1)
Total deferred tax	1.2	(3.1)
Income tax expense for the year	14.6	15.6
Comprising:		
Income tax expense for the year	14.6	15.6
Adjusting items ¹		
Overseas taxation on adjusting items	5.1	6.6
UK taxation on adjusting items	1.0	2.2
Taxation on adjusting items	6.1	8.8
Income tax expense for the year after adjusting items	20.7	24.4

¹ See Note 5 for details of adjusting items.

The tax charge on profits represents an effective tax rate of 23.9% (2018: 23.9%) and an effective tax rate after adjusting items of 22.1% (2018: 21.6%). The Group is international, has operations in several jurisdictions and benefits from cross border financing arrangements. Accordingly, tax charges of the Group in future periods will be affected by the profitability of operations in different jurisdictions, changes to tax rates and regulations in the jurisdictions within which the Group has operations, as well as the ongoing impact of the Group's funding arrangements. The medium term expectation for the Group's effective tax rate is around 22-23%.

The total charge for the year can be reconciled to the accounting profit as follows:

	2019 \$m	2019 per cent	2018 \$m	2018 per cent
Profit before tax on continuing operations	61.0		65.4	
Tax on ordinary activities at 19.0 per cent (2018: 19.0 per cent)	11.6	19.0	12.4	19.0
Difference in overseas effective tax rates	1.7	2.8	1.5	2.3
Income not taxable and impact of tax efficient financing	(15.2)	(24.9)	(6.8)	(10.4)
Expenses not deductible for tax purposes	13.6	22.3	16.6	25.4
Adjustments in respect of prior years	1.0	1.6	(6.6)	(10.1)
Tax rate changes	0.9	1.5	(1.3)	(2.0)
Movement in unrecognised deferred tax	1.0	1.6	(0.2)	(0.3)
Tax charge and effective tax rate for the year	14.6	23.9	15.6	23.9

The tax credit related to discontinued operations is \$nil (2018: credit of \$2.0m).

7. Earnings per share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following:

	Continuing operations 2019 \$m	Discontinued operations 2019 \$m	Total operations 2019 \$m	Continuing operations 2018 \$m	Discontinued operations 2018 \$m	Total operations 2018 \$m
Earnings:						
Earnings for the purpose of basic earnings per share	46.4	–	46.4	49.8	(8.4)	41.4
Adjusting items net of tax	26.4	–	26.4	38.9	8.1	47.0
Adjusted earnings	72.8	–	72.8	88.7	(0.3)	88.4

	2019 m	2018 m
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	579.6	520.9
Effect of dilutive share options	8.9	5.4
Weighted average number of shares for the purposes of diluted earnings per share	588.5	526.3

	Continuing operations 2019 cents	Discontinued operations 2019 cents	Total operations 2019 cents	Continuing operations 2018 cents	Discontinued operations 2018 cents	Total operations 2018 cents
Earnings per share:						
Basic	8.0	–	8.0	9.5	(1.6)	7.9
Diluted	7.9	–	7.9	9.5	(1.6)	7.9
Basic after adjusting items	12.6	–	12.6	17.0	–	17.0
Diluted after adjusting items	12.4	–	12.4	16.9	–	16.9

8. Contingent liabilities

As is the case with other chemical companies, the Group occasionally receives notices of litigation relating to regulatory and legal matters. A provision is recognised when the Group believes it has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where it is deemed that an obligation is merely possible and that the probability of a material outflow is not remote, the Group would disclose a contingent liability.

In 2013 the UK Government (through HMRC) introduced the UK Finance Company Exemption ('FCE') regime. Elementis entered into the FCE regime during 2014. In October 2017 the European Commission opened a State Aid investigation into the regime. In April 2019 the European Commission concluded that the FCE regime constituted State Aid in circumstances where Groups had accessed the regime using a financing company with UK significant people functions; the European Commission therefore instructed the UK Government to collect any relevant State Aid amounts. The UK Government indicated that it disagreed with the European Commission's conclusion and appealed the decision in July 2019. In autumn 2019 HMRC made an initial information request to Groups affected, which included Elementis. We understand that HMRC will now seek to assess Groups for State Aid based upon their UK significant people function analyses. Following consultation with external professional advisers Elementis believes that there is a technical position for asserting that our relevant financing company should not be deemed to have UK significant people functions. The range of possible outcomes is between \$nil and \$19.4m, however based on the work undertaken to date management believe that the potential for a material outflow is low. On this basis no provision has been made within these financial statements in respect of this case.

Unaudited pro forma information

To better understand the full year performance of the business segments operated by the Group for the 12 months to 31 December 2018 for comparative purposes, the information below includes the results for the Talc segment for the 10 months prior to acquisition.

Group Performance	Continuing operations 2019 \$m	Continuing operations 2018 \$m ⁽¹⁾	Talc 1 Jan to 22 Oct \$m ⁽²⁾	Pro forma continuing operations \$m
Revenue	873.6	822.2	136.9	959.1
Adjusted operating profit	123.0	132.6	20.7	153.3
Adjusted operating margin	14.1%	16.1%	15.1%	16.0%
Adjusted EBITDA	174.5	163.2	36.6	199.8
IFRS 16 adjustment	(7.9)	–	–	–
Adjusted EBITDA pre IFRS 16	166.6	163.2	36.6	199.8
Net Debt	454.2	498.1	–	498.1
Net Debt / EBITDA *	2.73			2.49

External revenue by business segment	Continuing operations 2018 \$m ⁽¹⁾	Talc 1 Jan to 22 Oct \$m ⁽²⁾	Pro forma continuing operations \$m	%
Personal Care	210.3	–	210.3	21.9
Coatings	362.2	–	362.2	37.8
Talc	21.5	136.9	158.4	16.5
Chromium	173.3	–	173.3	18.1
Energy	54.9	–	54.9	5.7
	822.2	136.9	959.1	100.0

External revenue by geography	Continuing operations 2018 \$m ⁽¹⁾	Talc 1 Jan to 22 Oct \$m ⁽²⁾	Pro forma continuing operations \$m	%
North America	290.3	6.0	296.3	30.9
Europe	233.2	116.1	349.3	36.4
Rest of World	298.7	14.8	313.5	32.7
	822.2	136.9	959.1	100.0

Mondo performance	12 months to 31 Dec 2019 €m ⁽²⁾	12 months to 31 Dec 2018 €m ⁽²⁾
Revenue	135.6	134.3
Adjusted operating profit	23.0	20.8

* Net Debt/ EBITDA where EBITDA is the Adjusted EBITDA on continuing operations of the Group and including full prior months of Mondo is the definition of Net Debt / EBITDA for Elementis' core banking covenants.

⁽¹⁾ Source - Elementis annual accounts.

⁽²⁾ Source - Mondo management accounts for the relevant period.

Alternative performance measures

A reconciliation from reported profit for the year to earnings before interest, tax, depreciation and amortisation (EBITDA) is provided to support understanding of the summarised cash flow included within the Finance report.

	2019 Profit and loss on total operations \$m	2018 Profit and loss on continuing operations \$m	2018 Profit and loss on discontinued operations \$m	2018 Profit and loss on total operations \$m
Profit for the year	46.4	49.8	(8.4)	41.4
Adjustments for				
Finance income	(0.4)	(0.3)	–	(0.3)
Finance costs and other expenses after adjusting items	31.3	19.8	–	19.8
Tax charge	14.6	15.6	(2.0)	13.6
Depreciation and amortisation	70.1	45.6	0.3	45.9
Excluding intangibles arising on acquisition	(18.6)	(15.0)	–	(15.0)
Adjusting items impacting profit before tax	31.1	47.7	9.8	57.5
EBITDA	174.5	163.2	(0.3)	162.9

There are also a number of key performance indicators (KPIs) used in this report. The reconciliations to these are given below.

Operating cash flow

Operating cash flow is defined as the net cash flow from operating activities less net capital expenditure but excluding income taxes paid or received, interest paid or received, pension contributions net of current service cost and adjusting items.

	2019 \$m	2018 \$m
Net cash flow from operating activities	143.4	84.3
Less: Capital expenditure	(47.3)	(50.8)
Add:		
Income tax paid or received	2.2	6.9
Interest paid or received	25.0	14.3
Pension contributions net of current service cost	1.2	1.2
Adjusting items	30.3	21.8
Operating cash flow	154.8	77.7

Operating cash conversion

Operating cash conversion is defined as operating cash flow (as defined above) excluding payments for provisions and share based pay, divided by operating profit from total operations after adjusting items.

	2019 \$m	2018 \$m
Operating profit from total operations after adjusting items	123.0	132.0
Operating cash flow	154.8	77.7
Add:		
Provision and share based pay	5.4	4.5
	160.2	82.2
Operating cash flow conversion	130%	62%

Contribution margin

The Group's contribution margin, which is defined as sales less all variable costs, divided by sales and expressed as a percentage.

	2019 \$m	2018 \$m
Revenue	873.6	827.0
Variable costs	(473.1)	(444.2)
Non variable costs	(79.1)	(76.7)
Cost of sales	(552.2)	(520.9)

Adjusted Group profit before tax

Adjusted Group profit before tax is defined as the Group profit before tax on total operations (both continuing and discontinued) after adjusting items, excluding adjusting items relating to tax.

Return on operating capital employed

The return on operating capital employed ('ROCE') is defined as operating profit from total operations after adjusting items divided by operating capital employed, expressed as a percentage. Operating capital employed comprises fixed assets (excluding goodwill), working capital and operating provisions. Operating provisions include self insurance and environmental provisions but exclude retirement benefit obligations.

	2019 \$m	2018 \$m
Operating profit from total operations after adjusting items	123.0	132.0
Fixed assets excluding goodwill	746.0	737.5
Working capital	152.1	181.9
Operating provisions	(51.6)	(48.8)
Operating capital employed	846.5	870.6
Return on capital employed	15%	15%

Average trade working capital to sales ratio

The trade working capital to sales ratio is defined as the 12 month average trade working capital divided by sales, expressed as a percentage. Trade working capital comprises inventories, trade receivables (net of provisions) and trade payables. It specifically excludes repayments, capital or interest related receivables or payables, changes due to currency movements and items classified as other receivables and other payables.

Adjusted operating profit/operating margin

Adjusted operating profit is the profit derived from the normal operations of the business. Adjusted operating margin is the ratio of operating profit, after adjusting items, to sales.

Annual Financial Report

In accordance with Disclosure and Transparency Rule 6.3.5, the following additional information is required to be made through a Regulatory Information Service ("RIS"): Principal risks and uncertainties; and Directors' responsibility statement. The information below, which is summarised and extracted from the 2019 Annual report and accounts that is to be published on 25 March 2020, is included solely for the purpose of complying with DTR 6.3.5(2) and the requirements it imposes on issuers on what material is to be communicated to the media in unedited full text through a RIS. A fuller description is set out in the 2019 Annual report and accounts.

Risk management

Elementis faces a number of risks and uncertainties in the ordinary course of its operations. The effective identification, mitigation and ongoing management of these risks underpins the delivery of strategic objectives. Elementis has an established risk management framework and system of internal controls to support decision making throughout the financial year. Risk management systems are intended to mitigate and reduce risk to the lowest extent possible, however, complete elimination of all risks faced by Elementis is not possible. The risk management processes can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has overall responsibility for risk management and sets the Group's policies, culture and tone on risk as well as providing oversight to management. A risk management framework is in place to identify, assess, mitigate and monitor the risks faced. The Audit Committee plays an important role in supporting the work of the Board and has specific responsibility for monitoring financial reporting, as well as the internal and external audit programmes, one of the primary purposes of which is to provide assurance on financial, operational and compliance controls.

The CEO, supported by the Executive Leadership Team (ELT), is responsible for implementing Group policies, risk management performance, identifying principal risks and ensuring resources are allocated for effective risk management and mitigation. Individual ELT members have responsibility for managing and monitoring risks relevant to their business or function on an ongoing basis. On an annual basis, the ELT reviews operational risks and the Board carries out a review of the principal risks and uncertainties.

Principal risks and uncertainties

The following is a summary of the principal risks agreed by the Board: uncertain global economic conditions and competitive pressure in the marketplace (including from currency movement); business interruption as a result of a major event (e.g. operations/ HSE, IT, transport or workplace incident caused by process/ system failure and/or human error, or by fire, storm and/or flood, pandemic, or a natural catastrophe); business interruption as a result of supply chain failure of key raw materials and/or third party service provision); increasing regulatory and product stewardship challenges; major regulatory enforcement action, litigation and/or other claims arising from products and/or historical and ongoing operations; intellectual property and know-how; portfolio innovation and technology; talent management and succession planning; IT, cyber and GDPR. A full description of these risks and the mitigating actions taken by the Company will appear in the 2019 Annual Report and Accounts.

Emerging risks

Brexit risks

During 2019, the Board continued to monitor the impact of Brexit amidst a period of political uncertainty. Management remains of the view that the impact on the Group is expected to be of low materiality. We continue to monitor the status of the trading relationship between the EU and the UK. A cross-functional team is in place to assess potential risks and impacts so that we can take appropriate action in relation to our supply chain and customers.

Coronavirus (COVID-19)

Management continue to assess the impact of the Coronavirus on the Company's operations and businesses. An internal team has been established to ensure the business is able to respond as and when new information is available. Employees are aware and understand how to report and share local insight with management. Hygiene protocols are in place at each of our manufacturing sites. A travel restriction is currently in place to high risk areas which will be reviewed as necessary. Each of the business units is assessing the financial impact which will largely depend on the containment of the virus.

Climate change

Awareness and engagement of climate change, sustainability and ESG matters are gaining intensity amongst a number of stakeholder groups. Using the TCFD framework to map our physical and transition risks and opportunities will enable us to analyse the financial impact over a much longer time horizon. 2020 will be a year of preparation. At present, we envisage that climate change is not a specific risk category in its own right rather, that it could have the ability to affect specific principal risk categories.

Related party transactions

The Company is a guarantor to the UK pension scheme under which it guarantees all current and future obligations of UK subsidiaries currently participating in the pension scheme to make payments to the scheme, up to a specified maximum amount. The maximum amount of the guarantee is that which is needed (at the time the guarantee is called on) to bring the scheme's funding level up to 105 per cent of its liabilities, calculated in accordance with section 179

of the Pensions Act 2004. This is also sometimes known as a Pension Protection Fund (“PPF”) guarantee, as having such a guarantee in place reduces the annual PPF levy on the scheme.

Directors' responsibility statement

The following is an extract of the full statement prepared in connection with the Company's Annual Report and Accounts (comprising both consolidated and parent company financial statements) for the year ended 31 December 2019. The full text of the Directors' responsibility statement will appear in the 2019 Annual Report and Accounts.

The Directors of the Company confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- The management report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.